

First Time Home Buyer Counseling and Certification Program



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Identify the Need

Since its establishment in 1971, South Carolina State Housing Finance and Development Authority (hereafter referred to as “SC State Housing”) has embarked on its core mission to provide affordable housing options with the vision that all South Carolinians have the opportunity to live in safe, decent and affordable housing. SC State Housing’s target beneficiaries are those in the low to moderate household income brackets as defined by the United States Department of Housing and Urban Development. Without programs such as those offered by SC State Housing, many South Carolinians would be unable to secure safe affordable housing for themselves and their families.

SC State Housing is centrally located in our state’s capitol but programs are available to citizens in all counties of the state. SC State Housing is a self-sustaining agency and as such receives no appropriations from the state budget. SC State Housing leverages its proven financial strength to sell securities to investors nationwide to generate revenue to fund its programs. Additionally, SC State Housing has established significant partnerships with a number of entities and affordable housing advocates in an effort to ensure that the best possible opportunities are available for our citizens. Not only do we provide housing opportunities to those who are frequently underserved, but our efforts also help stimulate the state’s economy by creating jobs in the construction, financial and real estate industries.

SC State Housing's Single Family Homeownership division administers a purchase money mortgage program, coupled with several down payment assistance options, that allows qualified applicants to become homeowners and realize the proverbial "American Dream". However, simply placing families in affordable housing serves only part of our mission. We must provide new homeowners with the tools necessary to ensure they have every opportunity to become successful homeowners and can sustain ownership of their homes for years to come. Typical first time homebuyers range from the very young to those who have matured before seeking to purchase a home. Most have extremely limited resources and are often transitioning from a rental setting to homeownership and the responsibilities that entails. Frequently these homeowners are not financially prepared for emergency repairs and maintenance issues that accompany homeownership. Real estate tax liabilities and required hazard insurance premiums are often new to these borrowers as well. Limited credit opportunities are available to a large portion of our client base therefore we must do our part to make certain they are knowledgeable of all responsibilities associated with homeownership.

The goal of this project is to provide a comprehensive education program to all SC State Housing homeowners in the Single Family Homeownership Program. Currently, available counseling services are limited to a handful of regional HUD approved non-profit entities and several HUD approved internet based counseling sites. Counseling via the internet and/or existing regional non-profits is not feasible for many of our borrowers for a number of reasons:

- access is not readily available to all;
- many are not familiar with computers and even if public computers were accessed, they would not be comfortable and in some cases would not have the knowledge to complete these sessions;
- we serve many citizens in outlying rural areas that have limited transportation available.

These are just a few of the barriers this project would serve to remove.

SC State Housing currently offers a range of training opportunities to our business partners. This training is provided via on site sessions, telephonic conferences, statewide representation and participation in regional homeownership events, as well as web based programs. During the past 12 months, mortgage production staff has conducted more than 40 two-hour lending partner training classes; in excess of 49 two to four-hour realtor training classes; and have attended 20 homeownership events statewide. We seek to enhance this training system with our First Time Home Buyer Counseling and Certification Program by targeting not only clients in our program but also those individuals and families considering homeownership for the first time. This training will be provided at no cost to the participants or to the taxpayers of South Carolina. To accomplish this we will continue to work with our business partners and utilize grant programs where available.

The First Time Homebuyer Counseling and Certification Program has been tailored to fit the needs of SC State Housing borrowers specifically; however, the program is applicable to all first time homebuyers, regardless of the financing option chosen or their personal financial situation. This

comprehensive program will allow SC State Housing to ensure that all homeownership candidates have the information and tools they need to become successful homeowners. The program will further serve to answer questions and address concerns on various topics ranging from credit requirements through loan closing and ongoing home maintenance responsibilities. It will provide “full-cycle” counseling that will also supply additional resources to borrowers post-purchase should they encounter difficulties meeting their future mortgage obligations.

Data Collection

Research for this project included review of counseling resources currently utilized by our customer base. Also reviewed were programs offered by other housing finance agencies that serve the same general customer base as SC State Housing and offer programs similar to ours. National industry standards that define guidelines for quality homeownership counseling services were evaluated as well. These included:

- Family Services, Inc. – Debt Management and Homebuyer Education programs available in partnership with ehomeamerica.org supported by NeighborWorks®.
- MGIC for Homebuyers
- Knowyouroptions.com by Fannie Mae
- Georgia Department of Community Affairs
- Wisconsin Housing and Economic Development Authority
- National Industry Standards for Homeownership Education and Counseling – www.homeownershipstandards.com

Because SC State Housing currently offers other statewide training programs and has funds budgeted for this purpose, additional funding costs would be minimal when partnered with our existing training program. Information was also obtained regarding the availability of grant programs to defray implementation costs and/or offer future program enhancements. Information technology resources available in-house to assist with World Wide Web broadcast were collected as well.

Data Analysis

Analysis and comparison of the data collected confirmed that the programs reviewed offer exceptional content. Industry accepted standards are consistently applied. Several of the resources evaluated serve a beneficiary class identical to the ones we serve. The primary disadvantage with most programs weighed was that instruction is limited to a web-based platform with some offering online end of course assessments. Successful completion of this type of program will achieve the goal which is the issuance of a completion certificate required for participation in a number of our programs. Based upon more than nine years' service with SC State Housing, specifically in the single family homeownership area, significant concerns with this approach to borrower education have been observed. Although this presentation type is adequate and will meet the needs of many applicants, there is a sizable group of borrowers served by SC State Housing that walk away from this type of course lacking the knowledge and tools needed to become successful homeowners. Although it is difficult to prove, it is also suspected that many participants may have had considerable assistance by loan originators or others when completing the online training. Our training format will provide some level of assurance that we have gone the extra mile to equip our borrowers with the appropriate information.

The SC Housing First Time Home Buyer Counseling and Certification Program will provide face to face counseling in a group setting with the availability of one on one question and answer sessions as appropriate. Web based instruction will also be available. Our curriculum is structured to provide more granular detail regarding many aspects of becoming a

homeowner. For example, when reviewing household budgeting, we will highlight the need to evaluate expenditures that are not generally taken into consideration by many programs available. Emphasis will be placed on living expenses that do not report to credit repositories. We will utilize the Allowable Living Expense National Standards currently applied by the Internal Revenue Service when working out realistic repayment plans for delinquent taxes. Items such as food, housekeeping, apparel, transportation costs, etc. will be factored in to our budget training. Budgeting analysis will also be based on net income, rather than gross income. All mortgage loans are underwritten and approved based on gross income. In fact, non-taxable income such as Social Security benefits may be grossed up as much as 25% for loan qualification purposes. The combination of these variables and more can give potential homeowners the misimpression that becoming a homeowner will be a non-event as it relates to their overall financial situation. One or a combination of these factors used to qualify borrowers for mortgage funding may result in unrealistic expectations with respect to surplus funds or net worth available after all liabilities are satisfied monthly.

Another component of our program will promote “living green” by providing a few tips and suggestions that can result in substantial long-term monetary savings. Recommendations will be made regarding purchasing Energy Star appliances; using energy efficient light bulbs; verifying the energy efficiency as reported by the builder when considering a new home for purchase. We will also stress the importance of recycling. Existing counseling programs researched and readily available do not delve deeply into these topics, if they address them at all.

Our collection and loss mitigation efforts have confirmed that many of our current borrowers who encounter a catastrophic life event, such as reduction of income, do not completely understand the financial responsibilities of owning their own home. Many still have a “rental” mindset. As a direct result of our down payment assistance loan program, many clients have little to no personal investment in their homes. These borrowers are much more likely to walk away from their home and their obligation if times get tough. Basic mortgage concepts such as mortgage insurance premiums, escrow accounts, annual escrow analyses performed to reset payments, late payment penalties, etc. are often misunderstood. A robust counseling curriculum, such as ours, will work to ensure borrowers are knowledgeable of these types of events and will seek to provide the tools necessary to cope with life events.

During fiscal year 2011 – 2012, SC State Housing originated and retained the servicing of 466 first mortgages and 522 second mortgages. Additional first mortgage loans were originated, sold, securitized and are currently being serviced by others. Mortgage production totals referenced are much smaller than in past years. The decline in SC State Housing’s single family mortgage originations are directly impacted by a number of factors which include, but are not limited to:

- economic recession and ongoing recovery;
- record high unemployment rates for our state;
- general market volatility with respect to competing mortgage rates available.

One of the effects of these and other dynamics that are beyond the control of SC State Housing is that applicants approved for participation in our program are typically higher risk borrowers. The level of risk can be measured by evaluating elements such as:

- credit scores - directly impacted by insufficient credit; no credit established; historical derogatory challenges; Our program will accommodate borrowers with lower credit scores and those that have to manually build credit utilizing alternative trade references.
- assets/reserves – SC State Housing offers financing to those with extremely limited to no cash reserves. As a direct result of the down payment assistance programs provided to SC State Housing borrowers, especially when coupled with seller paid closing costs which are typical in this area, individuals purchasing moderately priced homes can often complete the purchase transaction with negligible to no out of pocket expense.
- 100%+ financing – More than 97% of our borrowers are eligible for maximum FHA financing which is currently limited to 96.5% of the purchase price or appraised value, whichever is less. When partnered with our down payment assistance program most pre-paid and at closing expenses are absorbed by these funds. SC State Housing down payment funds may also be used for the 3.5% down payment required by FHA.
- house price limits – Although maximum house price limits based on HUD guidelines are established, SC State Housing has no minimum house price requirements. Our agency is a primary source of

financing for single family homes whose purchase prices are \$50,000 or less.

At the present time, pre-purchase homebuyer counseling is required for all applicants whose household income is less than 80% of the median for their specific county of residence. Although this approach certainly targets one of the highest risk classes of borrowers, household income alone is not an indicator of the overall risk associated with mortgage loan transactions. Many components must be considered, as seen above.

SC State Housing's First Time Homebuyer Training and Certification Program will be available to all borrowers regardless of household income. It is tailored to meet the needs of our beneficiaries but will provide all potential home buyers with the same information and tools to be successful. Training will be offered regionally on a recurring basis and will be led by mortgage industry specialists who will present the information and field questions as appropriate. The program will be made available by special request to civic organizations, community groups, local non-profits, etc. Attendees will be provided with relevant take-a-ways for future reference. Plans include online access to training where appropriate. Helpful links will also be maintained on SC State Housing's home page.

Our program will initially be required for all SC State Housing borrowers who have applied for our Category II First Mortgage Program that is offered in conjunction with a forgivable down payment assistance loan. This product is available to all eligible borrowers whose household income is at or below 80% of the median household income limits as defined and adjusted annually by the United States Department of Housing and Urban

Development. Plans are to strongly recommend it for participants in all SC State Housing single family loan programs, as well as to members of the general public that may feel they can benefit from this information. Participation by these last two beneficiary classes will initially be voluntary; however plans call for mandatory participation for all SC State Housing borrowers as soon as it is financially feasible.

Program Implementation

Implementation will begin by addressing the source of funding. Although the expense is anticipated to be minimal when partnered with existing training programs, allocations will be required. Grants to support the program are currently being competitively pursued. Once the funding source or sources are determined, the necessary manuals, documents and visual aids will be drafted for management approval.

Upon implementation, various marketing strategies may be employed to announce the program and its availability. Our primary tactic will focus on direct contact with the mortgage lending community utilizing our listserv coupled with direct notification to various business partners (i.e., SC Realtors®, Mortgage Bankers Association of the Carolinas, Inc., etc.). Lending partners will be notified well in advance of regional class schedules to allow time for them to distribute the information and notify potential attendees. Information will also be highlighted on our website. When lenders lock a loan in SC State Housing's single family homeownership program, the applicant's pre-purchase counseling needs will be evaluated by their loan originator based on their level of participation in our loan program. SC State Housing lending partners will be responsible for enrolling the required participants and also for ensuring that the completion certificates are included in the individual loan files when submitted for loan review and approval. SC State Housing loan processors and underwriters will confirm satisfactory completion for all required candidates. If it is determined that a candidate's training requirements have been overlooked, SC State Housing staff will contact the lending partner and coordinate training for the borrower as appropriate.

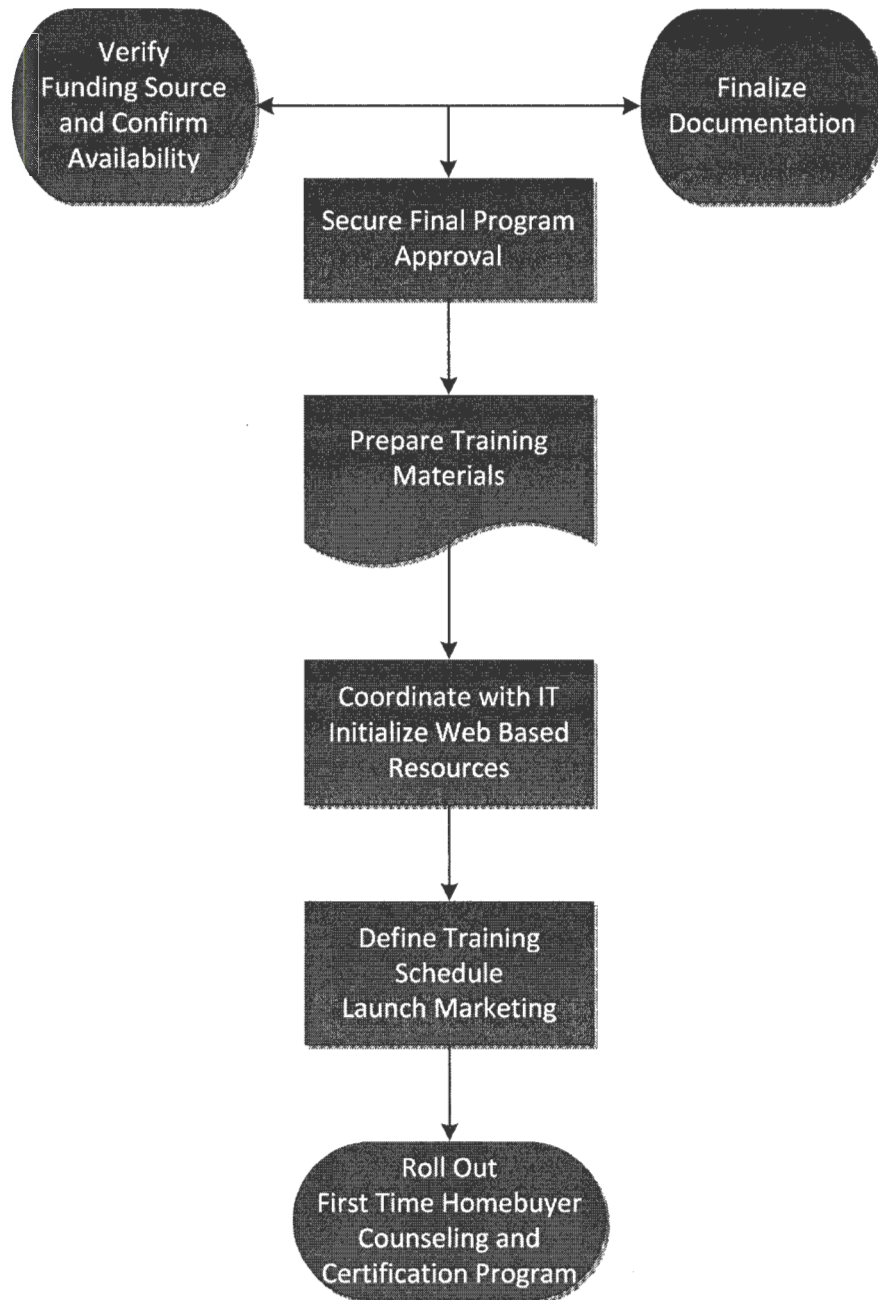
Geographically, the state will be divided into three distinct regions – the upstate, midlands and the coast. SC State Housing plans to initially secure three contract trainers to conduct face to face statewide training. Each trainer will be assigned a specific region to service. Each trainer will receive comprehensive in-house training followed by shadowing a current staff trainer. Roundtable discussions will be held once shadowing is complete and trainers will then be dispatched to develop their own personalized delivery of the material. Trainers will be evaluated internally by a panel of SC State Housing team members. Feedback and constructive criticism will be provided where appropriate. Once the evaluation team is confident the trainer is prepared to effectively deliver the presentation, a session will be scheduled by the Director of Mortgage Production. When this first external session is held, it will be observed by the Director and the Mortgage Operations Manager. Once the observation team is comfortable with the presentation skills of each trainer, solo training sessions will be calendared. Material will be assessed on an ongoing basis to ensure its relevance to our program, regulatory changes that may require updates and to reflect general changes in the mortgage lending environment that may occur. It will be revised or supplemented as appropriate.

SC State Housing is currently completing a request for proposal to procure a new loan originations systems platform. This process is expected to result in a conversion no later than October 1, 2013. To ensure adequate resources are available for the procurement process, corresponding conversion and implementation of the First Time Homebuyer Counseling

and Certification Program, anticipated implementation date for this program is January 1, 2014.

IMPLEMENTATION

First Time Homebuyer Counseling and Certification Program



Evaluation

The success of this program will be monitored primarily through the use of two vehicles. First, surveys will be distributed to all program attendees requesting honest feedback and comments. Responses will be evaluated by a team member with significant mortgage experience who is not directly involved with the training. Comments and suggestions will be monitored to identify trends related to presenter and/or content weaknesses that may require improvement. Proposed modifications will be presented to senior management for consideration. Approved enhancements will be implemented as feasible.

In addition, a tracking database will be established for all borrowers participating in the program. A random sample of no less than 10% of all affected loans will be evaluated once annually to determine how default or foreclosure rates for this group differ from historical values. Each loan should be followed and reviewed once annually for a period of no less than 3 years to ascertain impact of the program.

Summary

SC State Housing and its Single Family Homeownership Program strive to provide exceptional individualized customer service. We work to ensure that the mortgage loan purchase process and subsequent transfer to servicing are simple and seamless for the first time homebuyers we serve. Since 2003, SC State Housing's foreclosure rates remain consistently below nationwide rates evaluated and published by the Mortgage Bankers Association of America®. One goal is to continue that trend and hopefully widen the gap. It is anticipated that implementing a First Time Homebuyer Counseling and Certification Program designed to meet the specific needs of our customers and loan programs will continue to solidify the foundation of SC State Housing's flagship Single Family Homeownership Program while providing intrinsic value to the citizens we serve.